



Citizens Financial Group, Inc. (CFG)

Updated January 20th, 2025, by Josh Arnold

Key Metrics

Current Price:	\$48	5 Year CAGR Estimate:	13.4%	Market Cap:	\$21 B
Fair Value Price:	\$42	5 Year Growth Estimate:	14.0%	Ex-Dividend Date:	01/31/25
% Fair Value:	114%	5 Year Valuation Multiple Estimate:	-2.6%	Dividend Payment Date:	02/14/25
Dividend Yield:	3.5%	5 Year Price Target	\$81	Years Of Dividend Growth:	3
Dividend Risk Score:	D	Retirement Suitability Score:	D	Rating:	Buy

Overview & Current Events

Citizens Financial Group is a bank holding company for Citizens Bank, a regional bank that is based in Providence, Rhode Island. Citizens operates in two segments: Consumer Banking and Commercial Banking. The consumer segment offers traditional banking products and services, such as deposit accounts, home and education loans, credit cards, business loans, mortgage and home equity loans, personal loans, auto finance loans, and wealth management. The commercial segment offers a full suite of financial products and services to businesses, including treasury management, cash management, forex and interest rate risk solutions, M&A advisory services, and more. Citizens traces its roots back to 1828 and operates about 1,000 branches in 11 states in the U.S. The stock trades with a market capitalization of \$21 billion, and Citizens should generate roughly \$8.2 billion in revenue this year.

Citizens posted fourth quarter and full-year earnings on January 17th, 2025, and results were better than expected on both the top and bottom lines. Earnings-per-share came to 85 cents, which was three cents ahead of estimates. Revenue was down fractionally year-over-year to \$1.98 billion, but beat estimates by \$20 million.

The bank posted underlying pre-provision net revenue of \$684 million, up 4% quarter-over-quarter. Net interest income was up 3%, driven by a ten-basis point improvement in net interest margin, which came to 2.87%. Fees revenue rose 6% due primarily to higher Capital Markets fees. Expenses were up 3.5%, driven by investments in future growth. This resulted in positive operating leverage of about 50 basis points quarter-over-quarter.

Management noted loans and deposits were both largely flat in Q4 when compared to Q3. Net charge-offs came to 0.53% of loans, also stable quarter-over-quarter. Tangible book value ended the quarter at \$32.34 per share, which was down 3.6% quarter-over-quarter, reflecting mark-to-market adjustments from higher long-term interest rates.

We start 2025 at \$3.82 in estimated earnings-per-share.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
EPS	\$1.55	\$1.97	\$3.25	\$3.52	\$3.81	\$2.22	\$5.34	\$4.84	\$3.88	\$3.24	\$3.82	\$7.36
DPS	\$0.40	\$0.46	\$0.64	\$0.98	\$1.36	\$1.56	\$1.56	\$1.62	\$1.64	\$1.68	\$1.68	\$1.95
Shares¹	528	512	491	466	433	427	422	496	466	441	430	400

Citizens once had strong, sustained growth, but that hasn't been the case since the COVID recession. Citizens had been seeing strong credit metrics based on prudent underwriting strategies, resulting in lower net charge-offs and allowances for credit losses until recently. Citizens, like just about every other bank of reasonable size, took huge credit loss provisions in 2020, but those were largely unwound in 2021 as actual results were much better than originally feared during the worst of the pandemic. We note that Citizens is seeing lower lending margins and rising expenses, given the volatile moves in interest rates that continue to take place. Given this, as well as the unsustainable nature of credit loss provision unwinding from elevated 2020 levels, we think Citizens will struggle to replicate 2021 earnings levels. Based on estimates for 2025, we have upgraded our growth forecast to 14% annually. We believe Citizens has made it through the worst period of earnings headwinds and see a brighter future ahead.

¹ Share count in millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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We see the dividend rising in the years to come as Citizens' payout ratio is low compared to many regional banks. The dividend has proven to be a priority to management, and we believe it has the potential to hit \$1.95 per share by 2030. We note that Citizens raised its payout for the first time in 2.5 years in mid-2022.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	16.4	12.3	11.2	11.5	9.3	12.6	10.8	8.1	8.5	13.5	12.6	11.0
Avg. Yld.	1.6%	1.9%	1.8%	2.4%	3.8%	5.6%	3.4%	4.1%	4.9%	3.8%	3.5%	2.4%

Citizens has been valued in the low-double-digits for the past handful of years, excluding 2022, and we peg fair value at 11 times earnings. Shares trade at 12.6 times this year's earnings, implying a sizable negative valuation impact. The yield is also strong at 3.5%, and we see it drifting below 3% on strong earnings growth.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	26%	23%	20%	28%	36%	70%	29%	33%	42%	52%	44%	27%

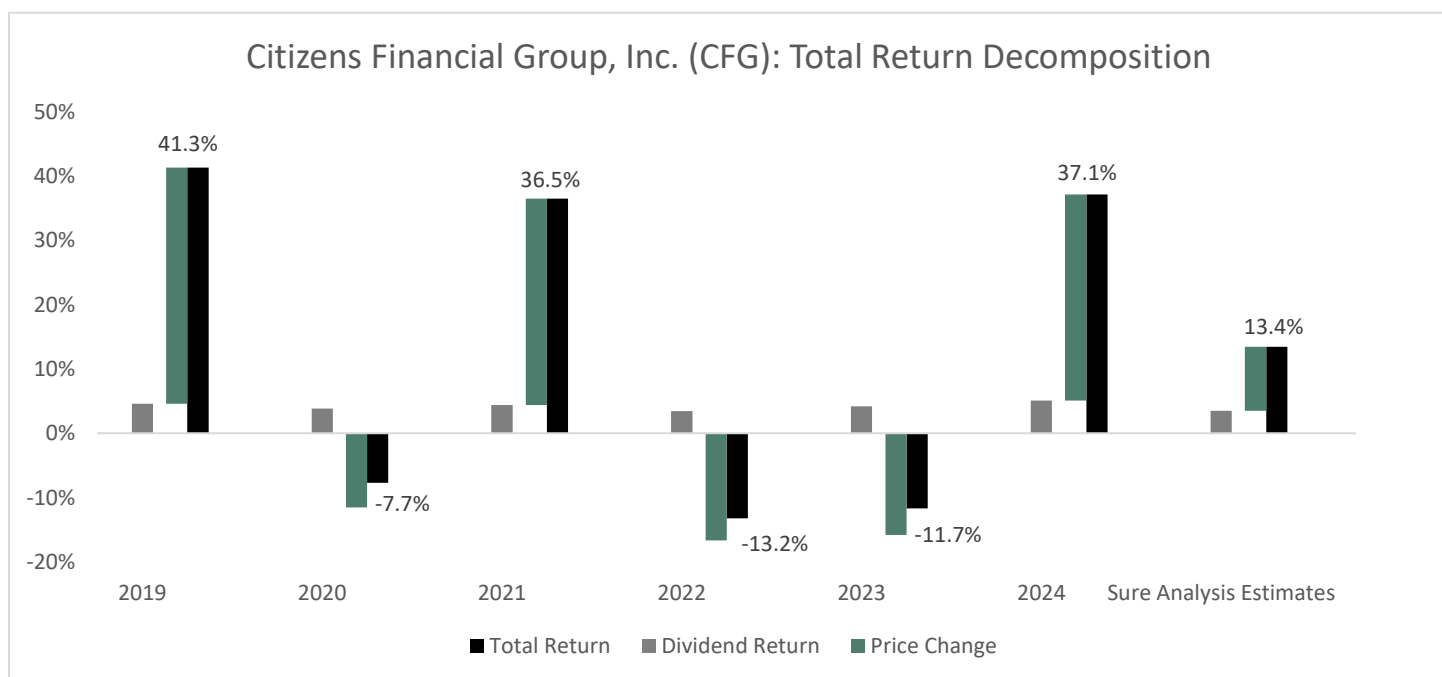
We see the payout ratio declining from here in the years to come, as earnings growth should outpace dividend growth. We have no dividend safety concerns at this point.

Citizens, like any other bank, is beholden to economic conditions. Citizens didn't exist in its current form during the Great Recession, but regional banks in general are quite susceptible to recessions, and indeed 2020 showed what kind of impact a recession can have on earnings. Citizens, also like other regional banks, doesn't really enjoy any competitive advantages, as services are commoditized in banking to a large extent.

Final Thoughts & Recommendation

Expected total returns have improved, and we're boosting the stock to a buy rating. Dividend safety is strong, and the current yield is about double that of the S&P 500, so we see Citizens as a strong income stock, although it's overvalued. Total returns could accrue from 14% growth, a modest valuation headwind, and the 3.5% yield.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	4,824	5,255	5,707	6,128	6,491	6,905	6,647	8,052	8,224	7,809
SG&A Exp.	1,852	1,932	2,008	2,113	2,200	2,289	2,132	2,811	3,176	2,657
D&A Exp.	471	515	487	489	633	578	625	565	478	---
Net Profit	840	1,045	1,652	1,721	1,791	1,057	2,319	2,073	1,608	1,509
Net Margin	17.4%	19.9%	28.9%	28.1%	27.6%	15.3%	34.9%	25.8%	19.6%	19.3%
Free Cash Flow	930	1,187	1,443	1,535	1,602	(7)	2,151	3,993	2,789	---
Income Tax	423	489	260	462	460	241	658	582	422	379

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets (\$B)	138.2	149.5	152.3	160.5	165.7	183.3	188.4	226.7	222.0	217.5
Cash & Equivalents	3,441	4,143	3,224	4,222	3,683	13,039	9,474	10,850	12,033	11,236
Goodwill & Int. Ass.	6,876	6,876	6,887	6,923	7,044	7,050	7,116	8,370	8,345	8,333
Total Liabilities (\$B)	118.6	129.8	132.1	139.7	143.5	160.7	165.0	203.0	197.6	193.3
Long-Term Debt	12,516	16,001	13,621	16,086	14,056	8,358	7,006	15,890	13,972	12,401
Shareholder's Equity	19,399	19,500	20,023	19,977	20,631	20,708	21,406	21,676	22,328	22,141
LTD/E Ratio	0.64	0.81	0.67	0.77	0.63	0.37	0.30	0.67	0.57	0.51

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	0.6%	0.7%	1.1%	1.1%	1.1%	0.6%	1.2%	1.0%	0.7%	0.7%
Return on Equity	4.3%	5.4%	8.4%	8.6%	8.8%	5.1%	11.0%	9.6%	7.3%	6.2%
ROIC	2.7%	3.1%	4.7%	4.9%	4.9%	3.1%	7.5%	5.9%	4.1%	4.0%
Shares Out.	528	512	491	466	433	427	422	478	477	454
Revenue/Share	8.96	10.03	11.33	12.76	14.37	16.13	15.55	16.79	17.25	17.22
FCF/Share	1.82	3.13	3.83	2.31	1.84	2.89	5.03	8.36	5.85	---

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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